# Goldman Sachs Global Growth Share Portfolio Fund

October 2024

## Global Market Review

In October, global equities declined by 2.0%, following a strong rally in the first nine months of the year. Investor concerns centered on growth risks, though the US economy showed signs of resilience. Adding to the uncertainty were the implications of the US election, as potential policy shifts could affect inflation and interest rates.

The month started strong, with US inflation data for September fell to a three-year low of 2.4% despite strong retail sales. This aligned with expectations of a soft landing and potential interest rate cuts in coming quarters, helping lift share prices. Eurozone inflation also declined to 1.8%, which allowed European Central Bank (ECB) to reduce its interest rates. However, sentiment shifted later in the month as concerns grew around the inflationary impact of a potential trump victory.

Japanese stocks were the top performer, despite concerns that tighter policy and a stronger yen could impact export-reliant companies, along with political uncertainty from recent election results. Meanwhile, emerging markets fell by 4.3%, pressured by a strong US dollar, profit-taking in India, and volatility in Chinese stocks due to doubts about the effectiveness of support measures announced in September.

Growth stocks outperformed value stocks in October, while small cap lagged as economic momentum slowed. Only the Financials, Communication Services, and Energy sectors posted gains, whereas Healthcare and Information Technology underperformed due to disappointing quarterly updates from several large companies, weighing on overall market returns.

Geopolitical tensions in the Middle East added to market volatility, alongside concerns about the uncertain outlook for global trade.

## Performance Overview

In October 2024, the I Acc share class of the GS Global Equity Partners ESG Portfolio returned -2.2% on a net basis, underperforming the benchmark MSCI World Index by 25 bps. Since inception, the portfolio has delivered 8.1%, underperforming the benchmark by 153 bps on an annualized net of fees basis.

During the month, our stock selection within **Information Technology** and **Industrials** supported portfolio returns, while our positions in **Consumer Staples** and **Energy** sectors detracted the most from relative returns. From a country perspective, our positions in **Taiwan** and **Japan** supported performance while our holdings in the **Netherlands** and **Sweden** detracted the most from relative returns.

# Performance Commentary

| Top Contributors | Ending Weight (%) | Relative Contribution (bps) | Top Detractors | Ending Weight (%) | Relative Contribution (bps) |
|---|---|---|---|---|---|
| Morgan Stanley | 4.0 | +43 | Estee Lauder | 1.6 | -63 |
| TSMC | 1.9 | +38 | DSM-Firmenich | 2.9 | -51 |
| Northern Trust | 3.0 | +30 | Hexagon | 2.0 | -34 |
| Marvell Technology | 2.2 | +25 | Danaher Corporation | 3.2 | -32 |
| Martin Marietta Materials | 3.0 | +24 | AstraZeneca | 3.6 | -23 |

**Top contributors to portfolio performance**

**Morgan Stanley**, an American multinational investment bank and financial services company, was the biggest contributor to relative returns during the month. The main driver of positive stock performance was the company's announcement of positive Q3 results and management's bullish commentary on capital markets. This led to upgrade in consensus numbers and outperformance of the stock. We continue to like the company as it is the largest wealth manager globally and has been growing net flows by 6-7%. We expect the company to continue inflows in mid-high single digit driven by market share gains, leveraging workplace and retail channel through acquisition of Solium and E*Trade. A capital-light model and improvement in returns over the past also adds to our optimism on the stock.

**TSMC**, the Taiwan based manufacturer of semiconductors, was the biggest contributor to relative returns during the quarter. The stock outperformed on the back of strong earnings report where the company highlighted strong demand from AI customers while broader semiconductor demand remains stable and expected to improve. Management also appeared optimistic on 2025 demand outlook and expects growth to continue next year. We remain positive on the company as it continues to execute well on technology and has been able to deliver on their roadmap while other peers have struggled which has led to increase in market share. TSMC should continue to benefit from strong demand for leading edge capacity, driven by continuing growth from AI customers and demand recovery in broader semiconductor markets.

**Top detractors to portfolio performance**

**Estee Lauder**, the American multinational cosmetics company, was the largest detractor from relative returns during the period. While the earnings for 1Q were broadly in line, the company cut its quarterly dividend by 47%, guided below consensus for Q2 and withdrew FY guidance which negatively impacted the share price. The company has been impacted by weakness in China as well Asia travel retail challenges which has led to successive downgrades. However, we continue to like the stock as the slowdown in the beauty industry is cyclical in nature and but remains long-term attractive with a consumer focus on health/wellness and antiaging in developed markets as well as increasing per capita consumption in emerging markets. Also, the company is in the midst of a $1.1-1.4bn restructuring plan to restore profitability and free up resources for innovation, marketing and premiumization strategy which could benefit the stock going further.

**DSM-Firmenich**, a Dutch-based innovator in nutrition, health, and beauty, was another key detractor from returns during the quarter. Despite the sector delivering a strong volume-driven performance so far this year, the stock was victim of investors' concerns around sustainability of growth into next year affecting the whole ingredients sector. Whilst the company indicated a stronger guidance than originally expected in the latest respective quarterly updates, the market is cautious around this year's recovery not being replicated to the same degree into 2025. We continue to monitor short term end market dynamics and remain confident in the ability of the stock to likely outperform relevant end markets.

# Portfolio Activity – Key Buys and Sells

During the month, we had 4 new initiations and 1 elimination.

We initiated a position in **ASML**, the Dutch based producer of extreme ultraviolet lithography (EUV) machines used in the production of computer chips and semiconductors for AI applications. ASML is the largest semi cap company in the world, with market share of 21%. We believe there are few pillars which are key to our investment thesis – ***Lithography Monopoly, N2 Fab buildout driving EUV demand, and Services growth.*** ASML has a monopoly in leading-edge Lithography with 100% share in EUV and is the driving force of ASML's topline growth. We expect strong growth from EUV tools in CY25 as customers like TSMC build capacity for N2, which is the next generation node in semiconductor manufacturing. With continuing growth in Services segment, we expect the company to likely deliver strong returns and strong margin expansion by CY28. Additionally, the valuation premium has reduced considerably compared to the US peers, despite no change in competitive positioning.

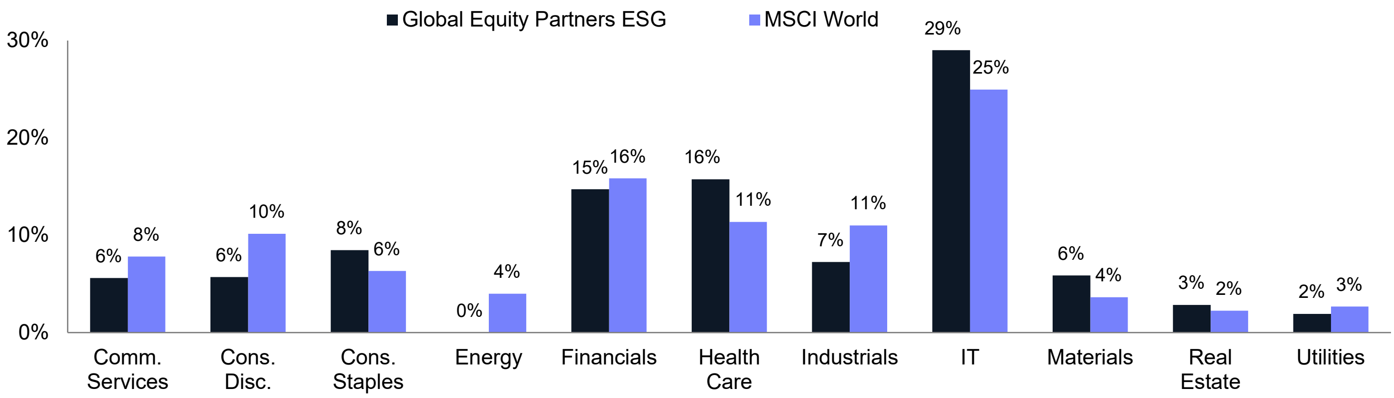
We initiated a position in **Cooper Companies**, US based medical device company. The company has 2/3rds of business in manufacturing and distributing contact lenses with a focus on specialty lenses and the remaining 1/3rd in women's health and fertility products. While there are no synergies between the two divisions, both grow nicely and have demographic tailwinds behind them (increased myopia due to higher screen time and more fertility problems due to women delaying childbirth). Strong **contact lens growth market** and **huge investments** by the company are the key pillars of our investment thesis. Contact lens market is a strong growth market and is relatively recession proof. Cooper is an innovator and market share gainer in the industry. The company has made investments in capacity, distribution, ERP systems and R&D in addition to dilutive M&A in fertility. Recent results have shown margins uplift, unit economics and better cash flows.

We initiated a position in **Eli Lilly & Co,** a US-based multinational pharmaceutical company. The company is a **market leader in obesity and type 2 diabetes (T2D) drugs**. While the company has an attractive portfolio of drugs that help address several health issues like neuroscience, endocrine functions, and animal health products, it has seen tremendous growth from its new GLP-1 drugs, which people have been using for diabetes and weight loss. **Beyond obesity**, the company has a long history of developing drugs to treat a variety of conditions. While it currently has a plethora of drugs in clinical trials, we expect four near-term major drug likely to be launched outside of GLP-1. We have taken advantage of the recent price weakness following the revenue miss to give the portfolio exposure to the fast-growing industry of treatment for obesity and other illnesses.

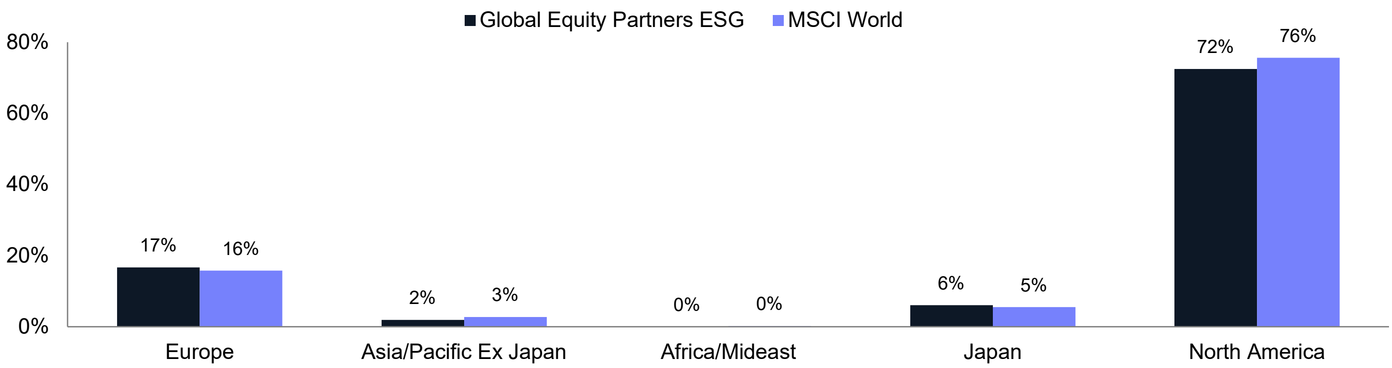
We have initiated a position in **National Grid**, the UK based investor-owned utility company which is focused on the transmission and distribution of electricity and gas. The investment case of National Grid is driven by its **key role in enabling the energy transition**. We believe the company is poised to benefit from the increased demand driven by increasing adoption of rooftop solar and should be able to make an attractive return on investments/equity as it operates under a stable and attractive regulatory environment both in the UK and in the US. On financial front, the company is now funded for two years beyond the five-year plan which implies very secure 10% RAB (Regulated Asset Base) growth and 6-8% EPS growth. There are few utilities with comparable visibility on earnings growth.

Moving to exits, we sold out of **Neste**, a Finnish producer of Renewable Diesel and Sustainable Aviation Fuel. The stock has been a long-term holding in GEP and one of the key underperformers over the last ~12 months. The primary reason for weakness in the share price has been a drastic change in the supply/demand dynamics in renewable fuel markets. Over the last 12 months, a strong wave of capacity additions coupled with negative, regulatory driven downside surprises on the demand side have tipped the market into oversupply putting pressure on results. In addition to the negative market dynamics, there have been some company specific issues, such as operational missteps in ramping-up new renewable refining capacity, further weighing on shares. While we are somewhat comfortable on company-specific issues, our medium-term outlook for the industry is a bit challenged. Hence, we are exiting the stock on reduced conviction.

## SECTORAL POSITIONING




## REGIONAL POSITIONING




## COUNTRY POSITIONING

| Country | Portfolio (%) | MSCI World (%) | Active (%) |
|---|---|---|---|
| Netherlands | 4.8 | 1.1 | 3.7 |
| United Kingdom | 6.5 | 3.6 | 2.9 |
| Taiwan | 1.9 | 0.0 | 1.9 |
| Sweden | 2.0 | 0.8 | 1.2 |
| Spain | 1.6 | 0.7 | 0.9 |
| Japan | 6.1 | 5.5 | 0.6 |
| United States | 72.5 | 72.6 | -0.1 |
| Switzerland | 1.9 | 2.4 | -0.5 |
| Netherlands | 4.8 | 1.1 | 3.7 |

Source: Source: FactSet, MSCI as of August 2024. Goldman Sachs Asset Management, August 2024

## TOP 10 HOLDINGS

| Company Name | Portfolio (%) | MSCI World (%) | Active (%) |
|---|---|---|---|
| Microsoft | 7.0 | 4.2 | 2.8 |
| Amazon | 4.7 | 2.5 | 2.1 |
| S&P Global | 4.0 | 0.2 | 3.8 |
| Morgan Stanley | 4.0 | 0.2 | 3.7 |
| NVIDIA | 3.8 | 4.8 | -1.0 |
| Alphabet | 3.6 | 2.7 | 0.9 |
| AstraZeneca | 3.6 | 0.3 | 3.3 |
| Waste Management | 3.3 | 0.1 | 3.1 |
| Danaher Corporation | 3.2 | 0.2 | 2.9 |
| HOYA Corporation | 3.1 | 0.1 | 3.0 |

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| Period | Gross Return | Net Return | Differential |
|---|---|---|---|
| 1 year | 6.17% | 5.54% | 0.63% |
| 2 years | 12.72 | 11.38 | 1.34 |
| 10 years | 81.94 | 71.39 | 10.55 |

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